

Davidson County Metropolitan Community Services Agency

For the Year Ended

June 30, 2002

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

September 30, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Davidson County Metropolitan Community Services Agency
700 2nd Avenue South
Nashville, Tennessee 37210

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Davidson County Metropolitan Community Services Agency for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The agency's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
03/067

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Davidson County Metropolitan Community Services Agency
For the Year Ended June 30, 2002

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

The CSA Is Not Operating as a Distinct Entity Separate From the County*

The distinction between the Davidson County Metropolitan Community Services Agency (CSA) and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate (page 7).

The CSA Did Not Monitor Its Contract With the Metropolitan Government*

The CSA has not monitored the Metropolitan Government of Nashville and

Davidson County's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the contract (page 11).

The CSA Incurred Expenses Without an Executed Contract*

The CSA allowed the metropolitan government to provide services for more than ten months of the fiscal year ended June 30, 2002, before a properly approved and executed contract was in place (page 12).

One of the reportable conditions described above was considered a material weakness:

- The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions (page 5).

COMPLIANCE FINDING

The CSA Transferred \$273,615.96 in Violation of State Statute*

During the year ended June 30, 2001, the CSA transferred \$273,615.96, including a “donation” of \$209,468.98, to the Metropolitan Government of Nashville and

Davidson County in violation of state statute. The transfer has not been included in a Plan of Operation or subsequent amendments and has not been approved by the appropriate state officials (page 9).

* This finding is repeated from the prior audit.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

“Audit Highlights” is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Davidson County Metropolitan Community Services Agency
For the Year Ended June 30, 2002

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Post-Audit Authority	1
Background	1
AUDIT SCOPE	2
OBJECTIVES OF THE AUDIT	2
PRIOR AUDIT FINDINGS	2
Resolved Audit Findings	2
Repeated Audit Findings	3
RESULTS OF THE AUDIT	3
Audit Conclusions	3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	4
Findings and Recommendations	7
Finding 1 – The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County	7
Finding 2 – The CSA transferred \$273,615.96, including a “donation” of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute	9
Finding 3 – The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County	11
Finding 4 – The CSA incurred expenses without an executed contract	12

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
FINANCIAL SECTION		
Independent Auditor's Report		14
Management's Discussion and Analysis		16
Financial Statements		
Statement of Net Assets	A	22
Statement of Activities	B	23
Balance Sheet—General Fund	C	24
Statement of Revenues, Expenditures, and Changes in Fund Balance—General Fund	D	25
Notes to the Financial Statements		26
Supplementary Information		
Budgetary Comparison Schedule		29
APPENDIX		30
Board of Directors		30

Davidson County Metropolitan Community Services Agency For the Year Ended June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Davidson County Metropolitan Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

BACKGROUND

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The governing body of the Davidson County Metropolitan Community Services Agency is the board of directors. As of June 30, 2002, the board was composed of 10 members. (See Appendix.)

The Davidson County Metropolitan Community Services Agency entered into an agreement with the Metropolitan Government of Nashville and Davidson County for day-to-day operations. All records, purchasing, accounting, and financial procedures are subject to the policies and procedures of the Metropolitan Government of Nashville and Davidson County, except in the case of a conflict between the state’s and metropolitan government’s rules and regulations. In such a case, the policies and procedures of the state prevail. The administrative liaison to the board is the custodian of the funds and reports to the board chair and the board of directors on the status of the programs.

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The Davidson County Metropolitan Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Davidson County Metropolitan Community Services Agency filed its report with the Department of Audit on March 26, 2003. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the agency has corrected previous audit findings concerning maintaining adequate business records and the preparation of an annual report.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the CSA not operating as a distinct entity, the CSA not monitoring its contract with the metropolitan government, incurring expenses without an executed contract, and transferring funds in violation of state statute. These findings have not been resolved and are repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Davidson County Metropolitan Community Services Agency's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed one material weakness.

Compliance

The results of our audit tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This instance of material noncompliance, along with a recommendation and management's response, is included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Davidson County Metropolitan Community Services Agency's financial statements.



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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

April 23, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Davidson County Metropolitan Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 23, 2003. As discussed in Note 6 to the financial statements, the Davidson County Metropolitan Community Services Agency implemented Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Davidson County Metropolitan Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be

reported under *Government Auditing Standards*. The following instance of noncompliance was noted:

- The CSA transferred \$273,615.96, including a “donation” of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute.

This instance is described in the Findings and Recommendations section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Davidson County Metropolitan Community Services Agency’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency’s ability to record, process, summarize, and report financial data consistent with management’s assertions in the financial statements.

The following reportable conditions were noted:

- The CSA is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County
- The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County
- The CSA incurred expenses without an executed contract

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness:

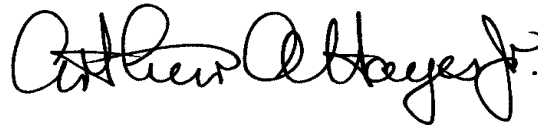
The Honorable John G. Morgan
April 23, 2003
Page 3

- The CSA is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County.

We also noted other matters involving the internal control over financial reporting that we have reported to the Davidson County Metropolitan Community Services Agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

FINDINGS AND RECOMMENDATIONS

1. **The Davidson County Metropolitan Community Services Agency is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County**

Finding

As noted in the prior audit, the Davidson County Metropolitan Community Services Agency (CSA) is not operating as a distinct entity separate from the Metropolitan Government of Nashville and Davidson County. State statute establishes 12 Community Services Agencies, each agency a political subdivision and instrumentality of the state, to provide services to children and other citizens in Tennessee. The services provided by the Davidson County Metropolitan CSA are funded through a contractual agreement with the Tennessee Department of Children's Services (DCS). Unlike the other 11 Community Services Agencies, the Davidson County Metropolitan CSA has no employees and does not own or lease any equipment or real estate. The CSA contracts with the Metropolitan Government of Nashville and Davidson County for the operation of its programs.

The distinction between the Davidson County Metropolitan CSA and the Metropolitan Government of Nashville and Davidson County is convoluted and frequently impossible to differentiate. Furthermore, both of the individuals responsible for the business functions of the CSA are metropolitan government employees. Since most of the CSA's business relates directly to the CSA's relationship with the metropolitan government, relying on the metropolitan government to perform the CSA's business functions does not give the CSA adequate control over its operations. Transactions are not independently scrutinized to verify that the interests of the CSA are protected. Without adequate control, the CSA cannot ensure that its assets are adequately protected and its financial transactions appropriately classified and correctly recorded.

Within the organizational structure of the metropolitan government, the office operating the programs under the CSA contract is called "Caring for Children" (CFC). The director of CFC serves as the Executive Director of the CSA, and the CSA's Fiscal Director is also a metropolitan government employee involved with CFC. Observations while conducting the audit reflect a prevalent mindset that the CSA and CFC function as interchangeable entities.

The CSA's contract with the metropolitan government delegates the CSA's responsibility for the management and delivery of its programs to the metropolitan government through the contract's scope of services. Although the CSA delegated its administrative responsibility to the metropolitan government, business reflected in the minutes of the CSA board of directors meetings relates to the administration of the metropolitan government's CFC program in addition to the business of the CSA. It appears that the board is actually functioning as a board of directors for the metropolitan government's CFC program rather than the CSA the board members were appointed to serve.

With the contract in place with the metropolitan government to operate the CSA's programs, the business of the CSA would generally consist of monitoring the metropolitan government's performance to ensure compliance with the contract, and processing and recording financial transactions with both the metropolitan government and DCS. However, the CSA is not adequately performing or controlling these business functions. As discussed in finding 3, the CSA did not monitor its contract with the metropolitan government. The CSA's board of directors cannot be assured that the CSA's assets are adequately protected and the CSA's financial transactions properly classified and correctly recorded without adequate control of its business functions.

The CSA board concurred with the prior audit finding and stated that it would consider the options outlined in the prior recommendation and take appropriate steps to ensure that the CSA is a distinct entity from the metropolitan government. The board minutes reflect that the board has discussed hiring an Executive Director that would be a CSA employee and contracting with an independent third party for accounting services. However, the board has not taken corrective action.

Recommendation

There appears to be no need or requirement for the continuing operation of the Davidson County Metropolitan Community Services Agency. The primary functions of the Davidson County Metropolitan Community Services Agency have been provided by the Metropolitan Government of Nashville and Davidson County. State statutes do not prevent the Tennessee Department of Children's Services from contracting directly with the Metropolitan Government of Nashville and Davidson County for the provision of these services. Without the CSA as a party to the contract, the responsibilities of the metropolitan government and the state would be clearly defined. The efficiency of the billing and reimbursement process would be improved. Certain CSA expenses, including board member expenses and audit fees, would be eliminated. (Although the CSA board members are not directly compensated for their service to the CSA, there are costs associated with the functions of a CSA board of directors. These costs include the time, supplies, and postage associated with preparing, copying, and mailing meeting agendas, minutes, contracts, and other material or documents to the board members.)

If the CSA continues to operate and contract with the metropolitan government for the provision of services, the CSA board of directors should either hire employees or contract with an organization independent of the metropolitan government to maintain adequate internal control over its activities and protect its interests in its contractual relationship with the metropolitan government. In order to ensure that funds are used properly and CSA goals are achieved, the CSA employees should routinely monitor both the fiscal and program performance of the metropolitan government for compliance with the contract. Furthermore, the CSA board of directors should disengage from the administrative business of Caring for Children and limit its activity to CSA responsibilities.

Management's Comment

We concur. The Davidson County CSA Board has taken the following actions during the period December 2002 through June 2003 to enable the Davidson County CSA to function as intended by the state statute that created it:

1. Purchased administrative and fiscal services from Mid Cumberland CSA to ensure that all fiscal affairs of the Davidson County CSA are managed by the Executive Director of the Mid Cumberland CSA and the Mid Cumberland CSA Director of Fiscal Services with oversight by the Davidson County CSA Board.
 2. Structured the Davidson County CSA Plan of Operation and Budget to include adequate funds for the employment of an Executive Director and the establishment of an Administrative Office separate from the Metropolitan Government of Nashville and Davidson County.
 3. Submitted an application to the Tennessee Department of Children's Services for the establishment of a Departmental Bank Account which, when approved, will enable the Davidson County CSA to have its own bank account in addition to the state LGIP account.
 4. Established a job description for the Executive Director and approved a plan for the recruitment and employment of an Executive Director.
 5. Met with the Assistant Commissioner of the Tennessee Department of Children's Services to request the cooperation of the Department in the selection of the Executive Director since only the Commissioner of the Tennessee Department of Children's Services can appoint the Executive Director of a CSA.
2. **The CSA transferred \$273,615.96, including a "donation" of \$209,468.98, to the Metropolitan Government of Nashville and Davidson County in violation of state statute**

Finding

As noted in the prior audit, during the year ended June 30, 2001, the Davidson County Metropolitan Community Services Agency (CSA) transferred \$273,615.96 to the Metropolitan Government of Nashville and Davidson County, in violation of state statute. The transfer was not included in the Plan of Operation or subsequent amendments and was not approved by the appropriate state officials. Section 37-5-309, *Tennessee Code Annotated*, states:

The executive director, subject to approval of the board and approval of the plan of operation pursuant to Section 37-5-310, has the authority to . . . incur such expenses as may be necessary for proper discharge of the duties of the community services agency.

Section 37-5-310, *Tennessee Code Annotated*, describes the Plan of Operation and requires it to be approved by the Commissioner of the Tennessee Department of Children's Services, the Commissioner of the Tennessee Department of Finance and Administration, and Tennessee's Comptroller of the Treasury.

Management did not concur with the prior audit finding and stated, "A plan will be submitted to the Tennessee Department of Children's Services for review and approval addressing the transfer of the \$273,615.96 to Metro. The plan will outline expenditures relating to the \$273,615.96 and future plans." Although management subsequently discussed the transfer made to the metropolitan government with state officials, a formal plan amendment was never prepared. The CSA has not obtained approval for the unauthorized transfer, nor has it received reimbursement from the Metropolitan Government of Nashville and Davidson County.

The transfer to the Metropolitan Government of Nashville and Davidson County was made from the CSA's fund balance. Fund balance represents amounts that accumulate when revenues exceed expenditures. The CSA's fund balance is available to fund expenditures if specified and approved in the CSA's budget. The budget is a required element of the CSA's Plan of Operation. Because this transfer was not approved in accordance with state statute, the financial statements have been adjusted to increase the receivable from the metropolitan government for \$273,615.96.

Documentation available at the CSA indicates that \$64,146.98 was used to pay the Metropolitan Government of Nashville and Davidson County for program costs that exceeded the CSA's available grant funds in the 2000 fiscal year. This would appear to be an appropriate use of funds had the expenditure been approved as required.

The remaining \$209,468.98 was identified in CSA documents as a "donation" to the Metropolitan Government of Nashville and Davidson County. In the minutes of the March 13, 2001, CSA board of directors meeting, the board unanimously approved the transfer of these funds. However, in addition to the board's approval, the CSA must obtain the appropriate state approvals.

In addition, the use of the CSA's fund balance for a "donation" may not be consistent with state statute. Section 37-5-304, *Tennessee Code Annotated*, indicates that the community services agencies were established to "provide coordination of funds or programs designated for care of children and other citizens in the state." It would appear that making an unrestricted donation to the metropolitan government does not ensure that funds are spent as intended by the statute.

Recommendation

The Davidson County Metropolitan Community Services Agency should comply with all provisions of *Tennessee Code Annotated*. The CSA should only incur expenditures that have

been included in a Plan of Operation budget and that have been approved by all of the appropriate state officials. The chair of the CSA board of directors should ensure that the proper approval of the transfer is obtained through a Plan of Operation amendment, or that the funds inappropriately transferred to the metropolitan government are returned to the CSA.

Management's Comment

We concur. The Davidson County CSA Board approved this transfer but failed to submit an amendment to the Plan of Operation for approval by the appropriate state officials prior to the funds being transferred.

Representatives of the Davidson County CSA Board have met with the Assistant Commissioner for Fiscal Services at the Tennessee Department of Children's Services to discuss how this issue might be resolved. To date there has not been agreement about a plan for its resolution. Specifically, the Board is prepared to submit an amendment to the Plan of Operation as suggested but has chosen not to do so until there is an indication from the Tennessee Department of Children's Services that the structure of the amendment is acceptable to the Department.

3. The CSA did not monitor its contract with the Metropolitan Government of Nashville and Davidson County

Finding

As noted in the prior audit, the Davidson County Metropolitan Community Services Agency (CSA) did not monitor its contract with the Metropolitan Government of Nashville and Davidson County. The CSA has no employees. Instead, the CSA contracts with the Metropolitan Government of Nashville and Davidson County for the operation of its programs. However, since the CSA has no employees, the CSA has not monitored the metropolitan government's fiscal and program performance to ensure that the metropolitan government has complied with the terms of the contract.

Normally, the Tennessee Department of Finance and Administration's Office of Program Accountability Review (PAR) would be responsible for monitoring the CSA to ensure that the CSA complied with its contract with the Tennessee Department of Children's Services (DCS). Since the CSA subcontracts all of this activity to the Metropolitan Government of Nashville and Davidson County, PAR previously agreed to monitor the subrecipient on behalf of both DCS and the CSA. However, the last time that PAR conducted a monitoring visit with the Metropolitan Government of Nashville and Davidson County was December 1999. Per discussions with PAR and the Tennessee Department of Children's Services Internal Audit staff, no monitoring has been done on behalf of the CSA since December 1999. If monitoring is not conducted by the

state on behalf of the CSA, the CSA is responsible for monitoring its contract with the metropolitan government.

In response to the prior audit finding, management concurred and stated, “The DCCSA will take under consideration monitoring options, including but not limited to utilizing the services of the Tennessee Department of Finance and Administration, Program Accountability Review Group or contracting for this service.” It appears that management has discussed various options for monitoring its contract; however, monitoring has yet to be performed.

The *Accounting Manual for Recipients of Grant Funds in Tennessee*, page 40, requires monitoring of subcontractors “to ensure that weaknesses and noncompliance are promptly corrected.” Without adequate fiscal and program monitoring of the metropolitan government’s performance, the CSA cannot ensure that funds are used properly and that CSA goals are achieved.

Recommendation

The CSA board should immediately take action to implement a monitoring plan. The CSA should hire employees or contract with an entity independent of the metropolitan government to monitor the contract with the metropolitan government. Both fiscal and program performance should be monitored each fiscal year.

Management’s Comment

We concur. The Davidson County CSA has engaged the Mid Cumberland CSA to provide both fiscal and program performance monitoring of the Metropolitan Government’s performance according to the contract. Furthermore, as outlined previously in response to the first finding, the Davidson County CSA is prepared to employ a full time Executive Director. Because only the Commissioner of the Tennessee Department of Children’s Services can appoint the Executive Director, efforts are now underway to obtain the Commissioner’s cooperation in this selection process.

4. The CSA incurred expenses without an executed contract

Finding

As noted in the prior audit, the Davidson County Metropolitan Community Services Agency (CSA) allowed the Metropolitan Government of Nashville and Davidson County to provide services for most of the fiscal year ended June 30, 2002, before a properly approved and executed contract between the parties was in place. In response to the prior finding, management stated, “We concur. The DCCSA will work to ensure that the contract between DCCSA and

Metro is executed as expeditiously as possible.” However, corrective action was not taken. Conversely, the contract was finalized over a month later than in the previous year.

The CSA contracts with the metropolitan government for the operation of all of its programs. Since this relationship has been ongoing since the inception of the CSA, the need for the contract should have been anticipated well in advance of July 1, 2001, the beginning of the fiscal year. However, the chair of the CSA board of directors did not approve the contract until May 2, 2002, and the metropolitan government did not approve the contract until May 18, 2002. Not having an executed contract in place at the beginning of the fiscal year can lead to confusion between the parties regarding the scope of services, payment terms, and other conditions.

Recommendation

The chair of the CSA board of directors should become actively involved in the oversight of the contracting process. The chair should ensure that a fully executed contract is in place before the metropolitan government provides any services.

Management’s Comment

We concur. The chair of the CSA Board of Directors has become actively involved in the oversight of the contracting process and will continue to do so. The chair will see that the contract is prepared and submitted to the metropolitan government in a timely manner allowing adequate time for review and approval prior to the beginning of the fiscal year.



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Independent Auditor's Report

April 23, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Davidson County Metropolitan Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Davidson County Metropolitan Community Services Agency as of June 30, 2002, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, the Davidson County Metropolitan Community Services Agency adopted the provisions of Governmental Accounting Standards

The Honorable John G. Morgan
April 23, 2003
Page 2

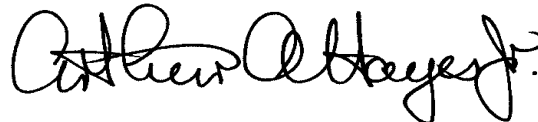
Board Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. This resulted in changes to the format and content of the financial statements.

The management's discussion and analysis for Davidson County Metropolitan Community Services Agency is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information on page 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2003, on our consideration of Davidson County Metropolitan Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Davidson County Metropolitan Community Services Agency provides this *Management's Discussion and Analysis* for readers of the financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2002. The Davidson County Metropolitan Community Services Agency did not restate its 2001 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights:

Net Assets - The assets of the agency exceeded its liabilities at fiscal year ended June 30, 2002, by \$282,866 (presented as "net assets"). All of this amount was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the agency's ongoing obligations.

Changes in Net Assets - The agency's total net assets increased by \$4,413 in fiscal year 2002.

Fund Highlights:

Governmental Funds - Fund Balances - As of the close of fiscal year 2002, the agency's governmental funds reported a combined ending fund balance of \$282,866, an increase of \$4,413 in comparison with the prior year. This entire fund balance is unreserved.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Davidson County Metropolitan Community Services Agency's basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information which is not required (the Budgetary Comparison Schedule), in addition to the basic financial statements. These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the agency - the ***Government-Wide Financial Statements*** and the ***Fund Financial Statements***. These financial statements also include the ***Notes to the Financial Statements*** that explain some of the information in the financial statements and provide more detail.

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the agency's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the agency's financial position, which assists in assessing the agency's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. They take into account all

revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Agency's net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each function of the agency.

Governmental Activities - The activities in this section are supported by revenue from the Tennessee Department of Children's Services and the Tennessee Commission on National and Community Services. Most services normally associated with the agency are services provided for children.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The agency, like other agencies and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the agency government, reporting the agency's operations in more detail than the government-wide statements.

Governmental Funds Financial Statements - The basic services provided by the agency are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the agency's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the agency. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for

governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The agency has one governmental fund, the General Fund. The governmental funds financial statements can be found immediately following the government-wide statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

Supplementary Information

The Budgetary Comparison Schedule is presented as supplementary information. It provides comparisons between the original budget, final budget, and actual. The Budgetary Comparison Schedule can be found immediately following the notes to the financial statements.

FINANCIAL ANALYSIS OF DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY AS A WHOLE

Net Assets

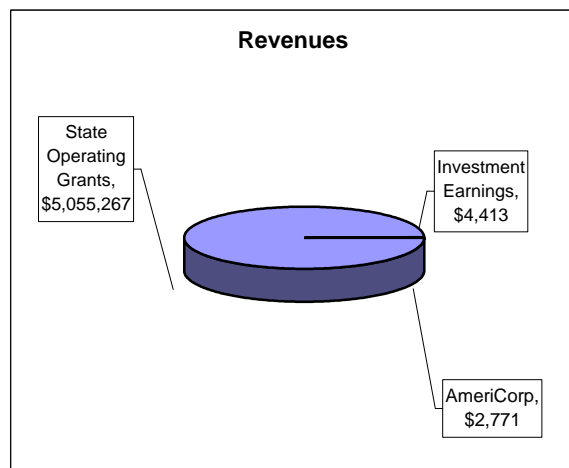
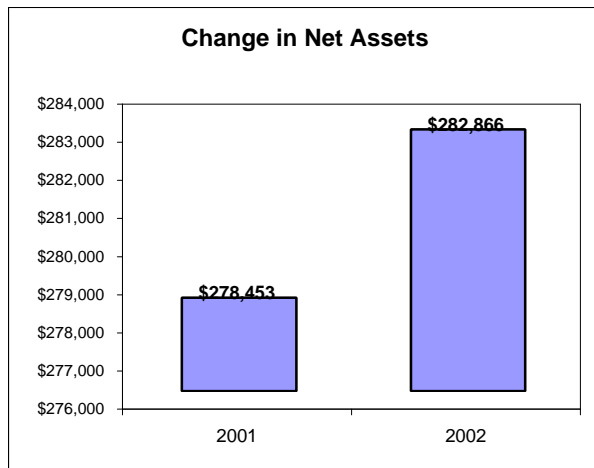
As noted earlier, net assets may serve over time as a useful indicator of an agency's financial position. The agency's combined net assets (government activities) totaled \$282,866 at the end of 2002, compared to \$278,453 at the end of the previous year.

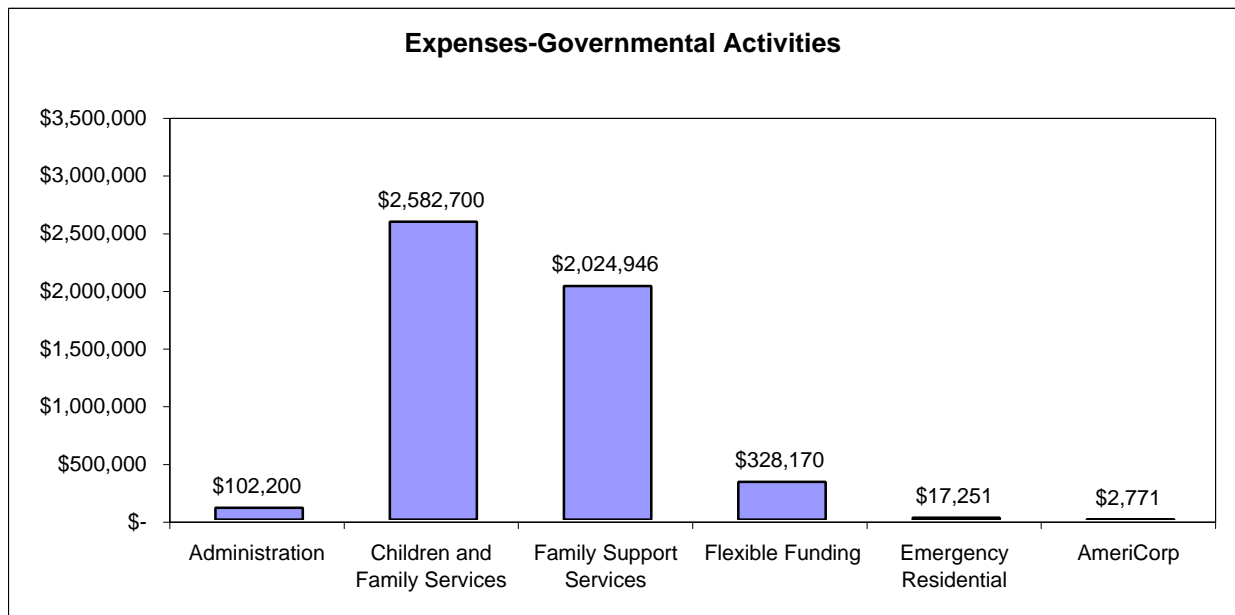
Davidson County Metropolitan Community Services Agency Statement of Net Assets June 30, 2002		
Assets		
Cash (Note 2)	\$	52,360.33
Accounts receivable		416.67
Due from the State of Tennessee		1,119,765.25
Due from Metro Government of Nashville		382,716.11
Total assets		1,555,258.36
Liabilities		
Due to the State of Tennessee		109,516.82
Due to Metro Government of Nashville		1,162,875.31
Total liabilities		1,272,392.13
Net Assets		
Unrestricted		282,866.23
Total net assets	\$	282,866.23

Changes in Net Assets

The agency's net assets increased by \$4,413 or 1.6%. Approximately 99.9% of the agency's total revenue came from the State of Tennessee, while .1% resulted from the AmeriCorp grant.

Davidson County Metropolitan Community Services Agency Changes in Net Assets For the Year Ended June 30, 2002		
Revenues		
State grants and contracts	\$	5,055,266.83
Federal grants and contracts		2,770.92
Interest		4,413.26
Total revenues		5,062,451.01
Expenditures		
Administration		102,200.00
Children and Family Services		2,582,699.85
Family Support Services		2,024,946.16
Flexible Funding		328,169.56
Emergency Residential		17,251.26
AmeriCorp Promise Fellows		2,770.92
Total expenditures		5,058,037.75
Increase in Net Assets		4,413.26
Net Assets - July 1, 2001		278,452.97
Net Assets - June 30, 2002	\$	282,866.23



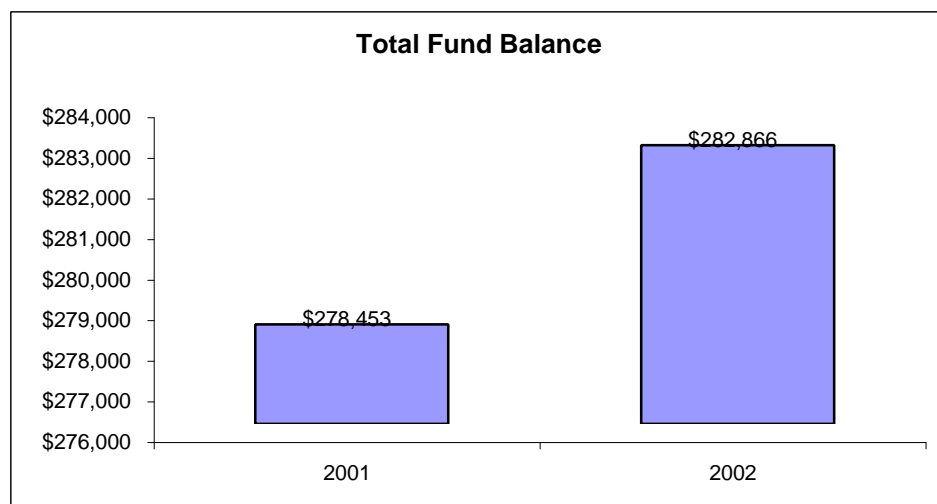


FINANCIAL ANALYSIS OF THE AGENCY'S INDIVIDUAL FUNDS

As noted earlier, the agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of an agency's net resources available for spending. The agency has one governmental fund, the general fund. As of the end of the current fiscal year, the agency's general fund reported an ending fund balance of \$282,866, an increase of \$4,413 in comparison with the prior year.



GENERAL FUND BUDGETARY HIGHLIGHTS

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes. There were no significant variances between the original budget, the final budget, and actual amounts.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets

The agency does not have any investment in capital assets for its governmental activities as of June 30, 2002. The agency has no commitments for capital expenditures or debt arrangements to provide financing for facilities or services.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Management foresees changes in its programs in the near future. As economic factors and budgets affect the State of Tennessee, they will probably affect our agency since we are almost totally funded by the state.

Davidson County Metropolitan Community Services Agency
Statement of Net Assets
June 30, 2002

	Governmental Activities
Assets	
Cash (Note 2)	\$ 52,360.33
Accounts receivable	416.67
Due from the State of Tennessee	1,119,765.25
Due from Metro Government of Nashville	382,716.11
Total assets	<u>1,555,258.36</u>
 Liabilities	
Due to the State of Tennessee	109,516.82
Due to Metro Government of Nashville	1,162,875.31
Total liabilities	<u>1,272,392.13</u>
 Net Assets	
Unrestricted	282,866.23
Total net assets	<u>\$ 282,866.23</u>

The notes to the financial statements are an integral part of this statement.

Davidson County Metropolitan Community Services Agency
Statement of Activities
For the Year Ended June 30, 2002

Programs	<u>Expenses</u>	<u>Program Revenues - Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Governmental Activities:			
Administration	\$ 102,200.00	\$ -	\$ (102,200.00)
Children and Family Services	2,582,699.85	2,582,699.85	-
Family Support Services	2,024,946.16	2,024,946.16	-
Flexible Funding	328,169.56	328,169.56	-
Emergency Residential	17,251.26	17,251.26	-
AmeriCorp Promise Fellows	2,770.92	2,770.92	-
Total	<u>\$ 5,058,037.75</u>	<u>\$ 4,955,837.75</u>	<u>(102,200.00)</u>
General revenues:			
Payment from the State of Tennessee			102,200.00
Unrestricted investment earnings			4,413.26
Total general revenues			<u>106,613.26</u>
Change in net assets			4,413.26
Net assets - beginning			278,452.97
Net assets - ending			<u>\$ 282,866.23</u>

The notes to the financial statements are an integral part of this statement.

Davidson County Metropolitan Community Services Agency
Balance Sheet
General Fund
June 30, 2002

Assets

Cash (Note 2)	\$ 52,360.33
Accounts receivable	416.67
Due from the State of Tennessee	1,119,765.25
Due from Metro Government of Nashville	382,716.11
Total assets	<u>\$ 1,555,258.36</u>

Liabilities and Fund Balance

Liabilities:

Due to the State of Tennessee	\$ 109,516.82
Due to Metro Government of Nashville	1,162,875.31
Total liabilities	<u>1,272,392.13</u>

Fund balance:

Unreserved	<u>282,866.23</u>
Total fund balance	<u>282,866.23</u>
Total liabilities and fund balance	<u>\$ 1,555,258.36</u>

The notes to the financial statements are an integral part of this statement.

Davidson County Community Services Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2002

Revenues	
State grants and contracts	\$ 5,055,266.83
Federal grants and contracts	2,770.92
Interest	4,413.26
Total revenues	<u>5,062,451.01</u>
Expenditures	
Administration	102,200.00
Children and Family Services	2,582,699.85
Family Support Services	2,024,946.16
Flexible Funding	328,169.56
Emergency Residential	17,251.26
AmeriCorp Promise Fellows	2,770.92
Total expenditures	<u>5,058,037.75</u>
Excess of revenues over expenditures	<u>4,413.26</u>
Fund balance - July 1, 2001	278,452.97
Fund balance - June 30, 2002	<u><u>\$ 282,866.23</u></u>

The notes to the financial statements are an integral part of this statement.

Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements
June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The Davidson County Metropolitan Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity does not include any component units.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The CSA’s basic financial statements consist of government-wide financial statements (the statement of net assets and the statement of activities) and fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance). The Davidson County Metropolitan Community Services Agency does not have any proprietary or fiduciary funds, and its only governmental fund is the general fund.

The statement of net assets presents all of the CSA’s financial and capital resources including both short-term and long-term information. The statement of activities presents a comparison between the direct expenses and program revenues for each of the CSA’s programs. Direct expenses are those that are specifically associated with a program. Program revenues include (a) charges paid by the recipients for services provided by the program and (b) grants and contributions that are restricted to meeting the operational requirements of the program. Revenues that are not classified as program revenues are presented as general revenues.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are measurable and become available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues that the CSA earns by incurring obligations are recognized in the same period the obligations are recognized. All other revenue items are considered to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Budgetary Process

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

NOTE 2. DEPOSITS

The Davidson County Metropolitan Community Services Agency has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the year ended June 30, 2002. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts,

Davidson County Metropolitan Community Services Agency
Notes to the Financial Statements (Cont.)
June 30, 2002

14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North,
Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 3. CAPITAL ASSETS

The CSA follows the Metropolitan Government of Nashville and Davidson County in the capitalization of fixed assets, setting the threshold at \$5,000. The CSA has no assets that qualify for capitalization.

NOTE 4. EMPLOYEE LEAVE OBLIGATION

The employees of the Caring for Children program are considered employees of the Metropolitan Government of Nashville and Davidson County. The Metropolitan Government of Nashville and Davidson County recognizes the liability for compensated absences for these employees. The CSA has no employees.

NOTE 5. DONATED FACILITIES

The Metropolitan Government of Nashville and Davidson County donates office space, utilities, telephone service, and copier and computer use to the Davidson County Metropolitan Community Services Agency. The value of the donation is not recorded in the financial statements.

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

The Davidson County Metropolitan Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. These statements establish new financial reporting requirements and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented these statements, as required, for the year ended June 30, 2002. As a component unit of the state, the Davidson County Metropolitan Community Services Agency has also implemented the statements for the year ended June 30, 2002.

Supplementary Information
Davidson County Metropolitan Community Services Agency
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2002

	Budgeted Amounts			Variance with Final Budget - Over (Under)
	Original	Final	Actual	
Sources of Financial Resources:				
Fund Balance - July 1				
Amount approved for expenditure	\$ -	\$ -	\$ -	
Amount not approved for expenditure	278,452.97	278,452.97	278,452.97	
Revenues				
Department of Children's Services	5,308,351.00	5,239,351.00	5,055,266.83	\$ (184,084.17)
Tennessee Commission on National and Community Service	-	24,271.00	2,770.92	(21,500.08)
Interest revenue	-	-	4,413.26	4,413.26
Total sources of financial resources	<u>5,586,803.97</u>	<u>5,542,074.97</u>	<u>5,340,903.98</u>	<u>(201,170.99)</u>
Expenditures				
Administration	102,200.00	102,200.00	102,200.00	-
Children and Family Services	2,691,800.00	2,622,800.00	2,582,699.85	(40,100.15)
Family Support Services	2,131,451.00	2,131,451.00	2,024,946.16	(106,504.84)
Flexible Funding	330,500.00	330,500.00	328,169.56	(2,330.44)
Emergency Residential	52,400.00	52,400.00	17,251.26	(35,148.74)
AmeriCorp Promise Fellows	-	24,271.00	2,770.92	(21,500.08)
Total expenditures	<u>5,308,351.00</u>	<u>5,263,622.00</u>	<u>5,058,037.75</u>	<u>(205,584.25)</u>
Fund Balance - June 30	<u>\$ 278,452.97</u>	<u>\$ 278,452.97</u>	<u>\$ 282,866.23</u>	<u>\$ 4,413.26</u>

APPENDIX

DAVIDSON COUNTY METROPOLITAN COMMUNITY SERVICES AGENCY

Audrey Corder, Executive Director

BOARD OF DIRECTORS

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Ms. Gayle Barbee, Chair
Ms. Carla Fenswick, Vice-Chair

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Ms. Jeannette Birge
Councilman Chris Ferrell
Dr. Maria Frexes-Steed
Ms. Valerie Horton
Mr. Bart Perkey
Mr. Arthur Rebrovick, Jr.
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